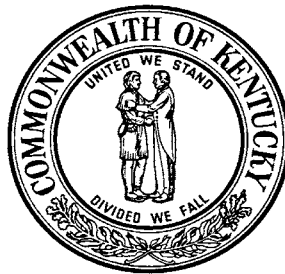


**REPORT OF THE AUDIT OF THE
MARTIN COUNTY
SHERIFF'S SETTLEMENT - 2000 TAXES AND
SHERIFF'S SETTLEMENT - 2000 UNMINED COAL TAXES**

July 24, 2001



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To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Lon E. Lafferty, Martin County Judge/Executive

Honorable Darriel Young, Martin County Sheriff

Members of the Martin County Fiscal Court

The enclosed report prepared by Berger & Ross, PLLC, Certified Public Accountants, presents the Martin County Sheriff's Settlement - 2000 Taxes and 2000 Unmined Coal Taxes.

We engaged Berger & Ross, PLLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Berger & Ross, PLLC, evaluated the Martin County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett".

Edward B. Hatchett, Jr.

Auditor of Public Accounts

Enclosure



**AUDIT EXAMINATION OF THE
MARTIN COUNTY
SHERIFF'S SETTLEMENT - 2000 TAXES AND
SHERIFF'S SETTLEMENT - 2000 UNMINED COAL TAXES**

July 24, 2001

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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
MARTIN COUNTY
SHERIFF'S SETTLEMENT - 2000 TAXES AND 2000 UNMINED COAL TAXES

July 24, 2001

Berger & Ross, PLLC, has completed the audit of the Sheriff's Settlement - 2000 Taxes and the Sheriff's Settlement 2000 Unmined Coal Taxes for Martin County Sheriff as of July 24, 2001. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Sheriff collected net taxes of \$3,338,646 for the districts for 2000 taxes. Sheriff distributed taxes of \$3,339,316 to the districts for 2000 Taxes. Taxes of \$4 are due to the districts from the Sheriff and refunds of \$1,574 are due to the Sheriff from the taxing districts.

Report Comments:

- The Sheriff Should Obtain A County Revenue Bond.
- The Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral And Enter Into A Written Agreement To Protect Deposits.

Deposits:

The Sheriff's deposits were uninsured and uncollateralized by bank securities or bonds.

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National Association of Tax Professionals
Government Finance Officers Association

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Lon E. Lafferty, Martin County Judge/Executive
Honorable Darriel Young, Martin County Sheriff
Members of the Martin County Fiscal Court

Independent Auditor's Report

We have audited the Martin County Sheriff's Settlement - 2000 Taxes and the Sheriff's Settlement - 2000 Unmined Coal Taxes as of July 24, 2001. These tax settlements are the responsibility of the Martin County Sheriff. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the Martin County Sheriff's taxes charged, credited, and paid as of July 24, 2001, in conformity with the basis of accounting described in the preceding paragraph.

To the People of Kentucky

Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Lon E. Lafferty, Martin County Judge/Executive
Honorable Darriel Young, Martin County Sheriff
Members of the Martin County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated August 7, 2002, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments.

- The Sheriff Should Obtain A County Revenue Bond.
- The Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral And Enter Into A Written Agreement To Protect Deposits.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Berger & Ross", with a long horizontal flourish extending to the right.

Berger & Ross, PLLC

Audit fieldwork completed -
August 7, 2002

MARTIN COUNTY
DARRIEL YOUNG, SHERIFF
SHERIFF'S SETTLEMENT - 2000 TAXES

July 24, 2001

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 167,851	\$ 199,077	\$ 729,758	\$ 205,797
Tangible	107,360	116,502	419,375	399,561
Intangible	-	-	-	56,283
Omitted Bills	479	491	1,796	654
Additional Bills	529	558	2,710	1,166
Oil, Gas, Limestone, Sand, and Gravel Taxes	<u>52,701</u>	<u>58,659</u>	<u>229,131</u>	<u>64,615</u>
Total Per Sheriff's Official Receipt	\$ 328,920	\$ 375,287	\$ 1,382,770	\$ 728,076
<u>Other Taxes and Charges</u>				
Correcting Erroneous Assessments	\$ 237	\$ 260	\$ 967	\$ 1,366
Penalties and Interest	2,059	2,358	8,723	2,390
Franchise Corporation Taxes	<u>86,572</u>	<u>104,316</u>	<u>345,113</u>	<u>-</u>
Gross Chargeable to Sheriff	\$ 417,788	\$ 482,221	\$ 1,737,573	\$ 731,832
<u>Credits</u>				
Exonerations	\$ 5,715	\$ 6,442	\$ 24,333	\$ 9,904
Delinquents	25,062	29,837	108,784	31,590
Unpaid Franchise Taxes	4,802	8,960	18,764	-
Discounts	<u>5,048</u>	<u>5,708</u>	<u>21,010</u>	<u>12,044</u>
Total Credits	<u>\$ 40,627</u>	<u>\$ 50,947</u>	<u>\$ 172,891</u>	<u>\$ 53,538</u>
Net Tax Yield	\$ 377,161	\$ 431,274	\$ 1,564,682	\$ 678,294
Less: Commissions*	<u>16,317</u>	<u>18,330</u>	<u>62,587</u>	<u>29,115</u>
Taxes Due Districts	\$ 360,844	\$ 412,944	\$ 1,502,095	\$ 649,179
Less: Taxes Paid	361,135	413,213	1,564,885	649,086
Less: Refunds (Current and Prior Year)	109	114	588	89
Add: Commission Refunds From Schools	<u>-</u>	<u>-</u>	<u>62,587</u>	<u>-</u>
		**		
Due Districts or (Refund Due Sheriff) as of Completion of Fieldwork	<u>\$ (400)</u>	<u>\$ (383)</u>	<u>\$ (791)</u>	<u>\$ 4</u>

* and ** See Page 4

The accompanying notes are an integral part of these financial statements.

MARTIN COUNTY
DARRIEL YOUNG, SHERIFF
SHERIFF'S SETTLEMENT - 2000 TAXES
July 24, 2001
(Continued)

*Commissions:

10% on \$	10,000
4.25% on \$	1,476,729
4% on \$	1,564,682

**Special Taxing Districts:

Library District	\$	(171)
Health District		(128)
Extension Service District		<u>(84)</u>
Due Districts (Refund Due Sheriff)	\$	<u><u>(383)</u></u>

The accompanying notes are an integral part of these financial statements.

MARTIN COUNTY
DARRIEL YOUNG, SHERIFF
SHERIFF'S SETTLEMENT - 2000 UNMINED COAL TAXES

July 24, 2001

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Sheriff's Official Receipt for Unmined Coal	\$ 58,055	\$ 64,617	\$ 252,412	\$ 71,180
Penalties	18	20	78	22
Gross Chargeable to Sheriff	\$ 58,073	\$ 64,637	\$ 252,490	\$ 71,202
<u>Credits</u>				
Exonerations	\$ 154	\$ 172	\$ 671	\$ 189
Delinquents	697	776	3,031	855
Discounts	1,113	1,238	4,837	1,364
Total Credits	\$ 1,964	\$ 2,186	\$ 8,539	\$ 2,408
Net Tax Yield	\$ 56,109	\$ 62,451	\$ 243,951	\$ 68,794
Less: Commissions*	2,385	2,654	9,758	2,924
Taxes Due Districts	\$ 53,724	\$ 59,797	\$ 234,193	\$ 65,870
Less: Taxes Paid	53,724	59,797	243,951	65,870
Add: Commission Refunds From School	-	-	9,758	-
Taxes Due Districts (Refund Due Sheriff)	\$ -	\$ -	\$ -	\$ -

*Commissions:

4.25% on \$ 187,354
4% on \$ 243,951

The accompanying notes are an integral part of these financial statements.

MARTIN COUNTY
NOTES TO FINANCIAL STATEMENTS

July 24, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statements have been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue, which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue, which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. However, as of July 24, 2001, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$1,105,932 of public funds uninsured and unsecured. In addition, the Sheriff did not have a written agreement with the depository institution securing the Sheriff's interest in the collateral.

MARTIN COUNTY
NOTES TO FINANCIAL STATEMENTS
July 24, 2001
(Continued)

Note 2. Deposits (Continued)

The county's official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of July 24, 2001.

	<u>Bank Balance</u>
Insured with FDIC	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	1,000,000
Uncollateralized and uninsured	<u>1,105,932</u>
Total	<u>\$ 2,205,932</u>

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2000. Property taxes were billed to finance governmental services for the year ended June 30, 2001. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 30, 2000 through March 3, 2001.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2000. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 15, 2000 through April 25, 2001.

Note 4. Interest Income

The Martin County Sheriff earned \$3,745 as interest income on 2000 taxes. As of July 24, 2001, the Sheriff owes \$216 in interest to the school district and \$43 in interest to the fee account from the Real Property Tax account.

Note 5. Sheriff's 10% Add-On Fee

The Martin County Sheriff collected \$8,292 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

MARTIN COUNTY
NOTES TO FINANCIAL STATEMENTS
July 24, 2001
(Continued)

Note 6. Advertising Costs And Fees

The Martin County Sheriff collected \$1,208 of advertising costs allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

Note 7. Bond Coverage

KRS 134.320 and KRS 134.250 give the Fiscal Court the authority to require the Sheriff to have a county revenue bond. The county revenue bond is supposed to cover all tax monies in the Sheriff's possession. During the 2000 tax year, the highest amount of tax collections on hand for the tax account was \$2,625,656. The Sheriff did not obtain a county revenue bond; therefore, the county is not protected from potential loss.

COMMENTS AND RECOMMENDATIONS

MARTIN COUNTY
DARRIEL YOUNG, SHERIFF
COMMENTS AND RECOMMENDATIONS

July 24, 2001

STATE LAWS AND REGULATIONS:

The Sheriff Should Obtain A County Revenue Bond

As of the audit date, the Sheriff had not obtained a County Revenue Bond as required by KRS 134.320 and KRS 134.250, which gives the Fiscal Court the authority to require the Sheriff to have a county revenue bond. The county revenue bond is supposed to cover all tax monies in the Sheriff's possession. During the 2000 tax year, the highest amount of tax collections on hand for the tax account was \$2,625,656. We recommend that the Sheriff obtain a County Revenue Bond sufficient to protect the county from potential loss.

Sheriff's Response:

I have left this up to Fiscal Court.

The Sheriff Should Require Depository Institution To Pledge or Provide Sufficient Collateral Of \$1,105,932 And Enter Into A Written Agreement To Protect Deposits.

On July 24, 2001, \$1,105,932 of the Sheriff's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The sheriff should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A § 182(c), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (3) an official record of the depository institution.

Sheriff's Response:

I will talk to the bank about increasing pledges and entering into a written agreement.

PRIOR YEAR:

- The Sheriff Should Have Required The Depository Institution To Pledge Or Provide Additional Collateral Of \$484,988 And Entered Into A Written Agreement To Protect Deposits.
- The Sheriff Should Obtain A County Revenue Bond In Order to Adequately Protect The County From Potential Loss.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the Martin County Sheriff's Settlement - 2000 Taxes and 2000 Unmined Coal Taxes as of July 24, 2001, and have issued our report thereon dated August 7, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Martin County Sheriff's Settlement - 2000 Taxes and 2000 Unmined Coal Taxes as of July 24, 2001 are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying comments and recommendations.

- The Sheriff Should Obtain A County Revenue Bond.
- The Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral And Enter Into A Written Agreement To Protect Deposits.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Martin County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Berger & Ross", with a long horizontal flourish extending to the right.

Berger & Ross, PLLC

Audit fieldwork completed -
August 7, 2002

